

## Message Text

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15

ACTION EA-10

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

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INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 NIC-01 SAJ-01

IO-10 PRS-01 /095 W

----- 016904

R 040653Z FEB 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3721

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY MANILA

USLO PEKING

AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

C O N F I D E N T I A L HONG KONG 1281

NOFORN

E.O. 11652: XGDS-1

TAGS: ETRD ENGR EEWT EWWT CH NZ

SUBJ: SHANTUNG CRUDE NOT SUITABLE FOR NEW ZEALAND

REF: HONG KONG 13864 (1974)

1. SUMMARY. AN OFFER OF CHINESE CRUDE FROM SAHNATUNG IN LATE OCTOBER 1974 WAS NOT ACCEPTED BY NEW ZEALAND BECAUSE OF HIGH WAX AND WATER CONTENT, AND TANKER LIMITATIONS. NEW ZEALAND OFFERED TO TAKE THIS TYPE OF CRUDE AFTER 1980 WHEN REFINER EXPANSION IS COMPLETED AND OFFERED TO ACCEPT A DIFFERENT QUALITY CRUDE BEFORE THEN. THE OFFER CAME AT A TIME WHEN THE CHINESE WERE SEEKING TO INTRODUCE  
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SHENGLI CRUDE TO THE INTERNATIONAL MARKET, BUT

APPARENTLY THE EFFORT MET WITH MORE PROBLEMS THAN THE  
PRC MAY HAVE EXPECTED . END SUMMARY

2. NEW ZEALAND COMMISSION OFFICER RHYS RICHARDS (PROTECT) PASSED CONGENOFF COPIES OF NEW ZEALAND GOVERNMENT MESSAGES CONCERNING A PRC OFFER OF CRUDE TO NEW ZEALAND IN LATE OCTOBER 1974. BASED ON THE MESSAGES AND FROM DISCUSSION WITH RICHARDS, IT IS APPARENT THAT THE OIL, FROM AN UNSPECIFIED FIELD IN SHANGUNG PROVINCE (PRESUMABLY SHENGLI), WAS NOT SUITABLE FOR NEW ZEALAND'S REFINERIES, AS THE WAX CONTENT (15.35 PERCENT) AND THE WATER CONTENT (ABOUT 2 PERCENT) WERE TOO HIGH. (THE WAX CONTENT IS USUALLY NOT STATED IN THE STANDARD PRC SALES CONTRACT, WHICH INCLUDES ONLY SPECIFIC GRAVITY, AND SULPHUR AND WATER CONTENTS SPECIFICATIONS.) ALSO THIS TYPE OF CRUDE WOULD PRODUCE MORE RESIDUAL OIL THAN THE NEW ZEALAND MARKET (OR MANY OTHER LESS INDUSTRIALIZED MARKETS IN ASIA) REQUIRED. (THE SULPHUR CONTENT WAS GIVEN AS 1.35 PERCENT, WHICH IS HIGHER THAN OTHER SAMPLES OF SHENGLI CRUDE THAT HAVE BEEN ANALYZED IN JAPAN AND MUCH HIGHER THAN THE USUAL RANGE OF TACHING CRUDE.)

3. ANOTHER COMPLICATING FACTOR WAS THAT THE CHINESE SAID THEIR PORTS ARE ONLY EQUIPPED TO HANDLE TANKERS UP TO 20,000 TONS. THE PRC STATED IT DID NOT HAVE ANY TANKERS AVAILABLE TO HANDLE THE CRUDE. TO NEW ZEALAND, WHICH PRESENTLY USES 100,000 TON TANKERS, THE SIZE LIMITATION ADDED AN ADDITIONAL \$8.00 PER TON FREIGHT COST OVER THE COST OF IMPORTING EQUIVALENT OIL FROM THE PERSIAN GULF, WHICH IS ABOUT THE SAME DISTANCE FROM NEW ZEALAND AS SHANTUNG. SINCE NEGOTIATIONS DID NOT PROGRESS TO THE POINT OF DISCUSSING PRICE, IT WAS NOT CLEAR TO NEW ZEALAND WHETHER THE PRC WOULD ADJUST ITS PRICE ACCORDINGLY.

4. THE NZG, HOWEVER, LEFT THE DOOR OPEN FOR FUTURE DEALS AFTER 1980, WHEN A NEW REFINERY WITH A CATALYTIC CRACKER IS SCHEDULED FOR COMPLETION AND CRUDE WITH HIGH WAX AND WATER CONTENT COULD BE IMPORTED AND REFINED. IT ADDED THAT IN THE "SHORTER TERM" IT WOULD BE INTERESTED  
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IN CHINESE PETROLEUM WITH ARABIAN OR IRANIAN LIGHT CRUDE SPECIFICATIONS.

5. COMMENT. THE CHINESE SEEMED ANXIOUS TO MAKE THE INITIAL DELIVERY BEFORE THE END OF 1974, APPARENTLY FOR A QUICK FOREIGN EXCHANGE RETURN. THE CHINESE OFFER TO NEW ZEALAND CLOSELY FOLLOWED THE FIRST KNOWN SHIPMENT OF SHENGLI CRUDE TO MANILA IN MID -OCTOBER. RICHARDS, WHO

TRAVELS TO MANILA FREQUENTLY, ADDED THAT THE PHILIPPINES ALSO HAD TROUBLE, AT LEAST WITH THE FIRST SHIPMENT OF SHENGLI CRUDE, AND REQUESTED THAT THE PRC SUPPLY A BETTER GRADE. MOREOVER, DURING THIS SAME PERIOD, THE JAPANESE BOUGHT A 10,000 TON SAMPLE OF SHENGLI CRUDE AT THE FALL CANTON TRADE FAIR, BUT ALSO FOUND IT UNSUIABLE (1974 PEKING 2283). THE PRC MAY WELL HAVE NOT EXPECTED MUCH DIFFICULTIES IN MATCHIN SHENGLI CRUDE WITH MARKET REQUIREMENTS AND THIS MAY , IN PART, HAVE ADDED TO ITS CONCERN OVER FOREIGN EXCHANGE IN LATE 1974. (REF 1974 PEKING 1923, 1999.)  
CROSS

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## Message Attributes

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